

Investment Office

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September 19, 2005

AGENDA ITEM 8b

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Environmental Initiative on Utility Industry Transparency

II. PROGRAM: Global Equity

III. RECOMMENDATION: 1) Approve the Greenhouse Gas (GHG) Reporting

Project in coordination with CalSTRS and the Carbon Disclosure Project ("CDP") with the objective to improve transparency in the Electric Power/Utilities ("Utilities") industry subject to successful negotiations of price and

terms, and

2) Approve writing letters to CalPERS' Utilities portfolio companies to encourage cooperation with the GHG reporting project and consider other forms of disclosure

in regard to GHG reporting, and

3) Approve public recognition of companies that

cooperate with the GHG reporting project.

IV. ANALYSIS:

Executive Summary

As part of Initiative 3 of the Corporate Governance Environmental Strategy (Attachment 1) approved by the Investment Committee on February 14, 2005, staff has been directed to explore opportunities to improve GHG data transparency in the Utilities industry. Staff has coordinated its efforts with CalSTRS and is recommending in this agenda item that CalPERS partner with

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CalSTRS and CDP to improve data transparency in the Utilities industry. The project's estimated cost to CalPERS is \$45,000. Further staff is recommending writing letters to CalPERS' portfolio companies in the Utilities industry to encourage disclosure of GHG data. Finally staff is recommending public recognition of portfolio companies that cooperate with the GHG reporting project in the Utilities industry.

Background

On February 14, 2005, the Investment Committee approved the Corporate Governance Environmental Strategy consisting of four targeted initiatives. The objective of the Strategy is to facilitate the improvement of disclosure on GHG emissions and timely reporting of environmental data in portfolio companies. Staff has made progress on each of the four initiatives and updated the Investment Committee on June 13, 2005 (Attachment 2).

In a joint effort, CalPERS and CalSTRS staff have been exploring the viability and development of a GHG reporting project that focuses on improving adequate, accurate and timely data transparency within the Utilities industry. The objective of Initiative 3 is to identify improved reporting opportunities, develop a GHG reporting project, transition it to an external entity for implementation, and encourage support for it at our combined Utilities portfolio companies.

After meeting, CalPERS and CalSTRS staff determined that an opportunity for improved reporting of GHG emissions does exist. Therefore, staff began to focus on the development of a GHG reporting project. Two options presented themselves during those discussions: staff could 1) develop a brand new project internally which would be resource intensive or 2) partner with a third party entity who has already had success with a similar project. Because of the limited resources available at both CalPERS and CalSTRS, staff determined that partnering with a credible, globally-recognized third party entity would provide a greater opportunity for developing a successful project. Staff also had preliminary discussions with prospective third party entities to whom the project could be transitioned for implementation. Such third party entities included the California Climate Action Registry, CDP, Ceres, the Global Reporting Initiative ("GRI"), and the World Resources Institute ("WRI").

Staff is recommending at this time that the GHG reporting project be carried out with CDP. CDP recently completed the third reporting cycle of its GHG reporting project allowing it to refine its process and continue gathering support from global investors.

Carbon Disclosure Project (CDP)

CDP is a not-for-profit European based project attempting to improve environmental data transparency and timely disclosure. Its mission is to inform investors of the significant risks and opportunities presented by climate change while informing publicly traded companies of shareowner concerns regarding the impact of carbon emissions on long-term company value.

To support its mission, CDP uses a process that encourages investment firms, corporations, and other interested groups to be signatories on an annual information request to the Financial Times 500 ("FT500") companies asking for investment-relevant data concerning carbon emissions. CDP's 2005 information request (CDP3) had a total of 155 signatories including CalPERS. Becoming a signatory of the CDP in February 2005 fulfilled Initiative 1 of the Corporate Governance Environmental Strategy.

CDP's Proposal for the Utility Industry GHG Reporting Transparency

CDP submitted a proposal based on our preliminary conversations. Both CalPERS and CalSTRS staff reviewed CDP's proposal and believe it meets our objective. In its proposal, CDP proposes that CalPERS and CalSTRS develop questions specific to the Utilities sector that would be included in its CDP4 information request. CDP would assist staff in the development of the questions allowing us to benefit from CDP's knowledge and experience. Combining our Utilities GHG reporting project with the CDP4 information request would allow us to utilize CDP's credible and globally-recognized process to gain greater acceptance of our project.

Once the Utilities industry questions are developed, staff would transition the GHG reporting project to CDP for implementation. As part of the implementation process, CDP would forward the CDP4 information request to 155 investors (signatories to the CDP3 information request) for comments and to encourage their continued support. CDP would discuss any comments received from the signatories with us for possible inclusion in the CDP4 information request. On February 1, 2006, CDP would mail the CDP4 information request to the FT 500 companies along with a subset of Utilities companies that would include CalPERS and CalSTRS global Utilities portfolio companies. It is anticipated that the CDP4 information request would have the support of the 155 signatories on the CDP3 information request giving our project greater credibility in the marketplace.

After CDP mails the CDP4 information request, CalPERS and CalSTRS would send separate letters to our global Utilities portfolio companies encouraging them to support the CDP4 information request and consider responding to it. In

addition, we would encourage them to consider other forms of disclosure such as joining the California Climate Action Registry and the Chicago Climate Exchange, issuing a sustainability report following GRI's guidelines, as well as including the information in the company's annual report and its website.

All the company responses will be posted to CDP's website and available to the public to download at no cost. CalPERS will publicly recognize its portfolio companies that respond to the CDP4 information request on CalPERS' website and will provide a link to CDP's website.

The estimated cost for the GHG reporting project should not exceed \$90,000 of which CalPERS would pay half (\$45,000), and the estimated cost is to cover CDP's incremental expenses to the CDP4 information request only. The proposal has been broken down into phases and the following table details the project's timeline.

Timeline	Phase
Prior to Oct 1, 2005	Draft Utilities Questions
	Compile Utilities Company Sample
Oct 1, 2005 to Oct 24, 2005	Solicit Comments from CDP3 Signatories
Oct 25, 2005 to Oct 31, 2005	Review Comments (PERS/STRS/CDP)
Nov 1, 2005 to Jan 31, 2006	Solicit Support from CDP3 Signatories
Feb 1, 2006	Mail CDP4 Information Request
	Mail CalPERS/CalSTRS Joint Letter to Portfolio Companies
Feb 1, 2006 to June 30, 2006	Follow-up: Encourage Companies to Respond

Recommendation

Staff recommends partnering with CDP and CalSTRS on the GHG reporting project. The partnership will allow CalPERS the opportunity to both use CDP's credible reporting project and receive support from other like-minded institutional investors. In addition to partnering with CDP and CalSTRS, staff recommends encouraging our Utilities portfolio companies in a separate letter from the CDP4 information request to consider other forms of disclosure such as the California Climate Action Registry, the Chicago Climate Exchange or a GRI Sustainability Report. Staff also recommends publicly recognizing the CalPERS' portfolio companies that responded to the CDP4 information request on CalPERS' website and providing a link to CDP's website.

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V. STRATEGIC PLAN:

This item is not a product of either the 2005-2006 Strategic or Annual Plan.

VI. RESULTS/COSTS:

The total estimated cost of the GHG reporting project should not exceed \$90,000 of which CalPERS would pay half (\$45,000).

	Kelly Forrest Investment Officer, Corporate Governance
	Winston Hickox Special Advisor, Environmental Initiatives
	William Sherwood-McGrew Portfolio Manager, Corporate Governance
	Christianna Wood Senior Investment Officer, Global Equity
Mark Anson Chief Investment Officer	

Attachment 1



Investment Office

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February 14, 2005

AGENDA ITEM: 7a(7)

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Corporate Governance – Environmental Strategy

II. PROGRAM: Global Equity

III. RECOMMENDATION: Implement four corporate governance initiatives with

the objective to improve transparency and timely

disclosure of environmental data.

IV. ANALYSIS:

Executive Summary

The Investment Committee directed staff to recommend a corporate governance strategy that will address increasing environmental risks to the portfolio and the need for regulation in the marketplace. With adequate, accurate and timely data transparency, shareowners are able to more effectively make investment decisions by taking into account the environmental practices of the companies in which we invest. Therefore, staff is recommending the following four initiatives to facilitate the improvement of disclosure on green house gas emissions ("GHG") and timely reporting of environmental data in portfolio companies:

- 1) Sign onto the Carbon Disclosure Project.
- 2) Support GHG data transparency within the auto industry, including support of shareholder proposals and potential Focus List candidates.
- 3) Explore opportunities to improve GHG data transparency within the electric power/utilities industry.
- 4) Recognize corporate disclosure "Best Practices".

Staff believes existing corporate governance resources can effectively facilitate these four initiatives; however, current staffing is insufficient to do more at this time.

Members of the Investment Committee February 14, 2005 Page 2

Background

On February 3, 2004, California State Treasurer Phil Angelides launched the Green Wave Environmental Investment Initiative (Attachment 1) in an effort to bolster financial returns, create jobs and clean up the environment. The goal of the Green Wave Initiative is to improve long-term financial returns for pensioners through investments in the environmental technology sector, while also reducing the risks to the pension funds posed by environmental liabilities. Treasurer Angelides called upon CalPERS to implement a four-pronged plan to support this initiative. One of the four recommendations urged CalPERS to encourage companies to provide meaningful, consistent, and robust reporting of their environmental practices, risks, and potential liabilities.

On November 17, 2004, CalPERS held an Environmental Workshop to update the Investment Committee on staff's progress towards implementing environmental investment initiatives in Private Equity, Real Estate, Global Equity and Corporate Governance. Corporate Governance staff's presentation summarized the following: (1) the scope of environmental issues affecting shareowner activities; (2) a historical framework for shareholder proposal activity on environmental issues; (3) a range of alternatives shareowners could utilize to improve disclosure; and (4) a panel discussion to explore potential future steps from a governance standpoint. It should be noted that data presented at the workshop was inconclusive, and mixed at best, as to whether environmental factors generate positive alpha in equity investment portfolios. However, staff believes devoting Corporate Governance resources to support improved disclosure in the marketplace in which CalPERS currently invests can better enable investors to assess risks and quantify potential liabilities.

At the Environmental Workshop, California State Controller Steve Westly requested (Attachment 2) CalPERS take a proactive approach to the environmental issue and suggested three areas in which it could do so. Controller Westly recommended CalPERS consider the following: 1) sign on to the European Union based Carbon Disclosure Project, an international initiative to improve the transparency of business risk associated with climate change; 2) host a roundtable with other financial industry investment partners to discuss the impact of carbon emissions regulations on public equity markets; and 3) advocate for a West Coast Fiduciary Conference on climate risk to discuss the fiduciary's role in evaluating the risks and opportunities associated with climate change.

Staff believes improved data transparency would help long-term risk assessment in the companies in which CalPERS invests. Therefore, staff recommends supporting a four-part corporate governance environmental strategy ("Strategy") through four initiatives to improve environmental data transparency and timely disclosure.

<u>Initiative 1: Support – Carbon Disclosure Project</u>

The Carbon Disclosure Project ("CDP") is a European based project attempting to improve environmental data transparency and timely disclosure. Its mission is to inform investors of the significant risks and opportunities presented by climate change while informing publicly traded companies of shareholder concerns regarding the impact of carbon emissions on long-term company value.

To support its mission, the CDP uses a process that encourages investment firms, corporations, and other interested groups to be signatories on an annual information request to the Financial Times 500 ("FT500") companies asking for investment-relevant data concerning carbon emissions. Representing more than \$10 trillion in assets, 95 signatories signed on to the 2004 information request. Attachment 3 contains a copy of the 2004 information request letter.

Staff recommends CalPERS become a signatory in 2005. The number of 2005 signatories has increased to 139 participants. While CalPERS will not be able to sign on to the initial 2005 information request as the firm deadline for signatories was January 31, 2005, staff has confirmed that CalPERS can become a 2005 signatory by signing on to a reminder letter with the other 139 signatories submitted to the FT500 this upcoming April.

In addition, staff seeks delegation to sign on to future CDP projects and communications on a case-by-case basis.

Initiative 2: Improve Data Transparency – Auto Industry

As a shareowner, CalPERS has a number of tools by which obtaining adequate, accurate and timely data transparency can be accomplished. Two such tools that fall within CalPERS right as a shareowner include (1) directly requesting such data, or (2) utilizing the shareowner proposal process.

Last December, the Investment Committee directed staff to send a letter to the Alliance of Automobile Manufacturers ("Alliance") requesting a meeting to provide information regarding their approach to meeting competitive market demands and emissions regulation. Alliance Chief Executive Fred Webber responding on behalf of all nine Alliance members declined CalPERS' invitation to meet and share the requested information.

Addressing the same issue, shareholder proposals (Attachment 4) have been filed this year at Ford and General Motors requesting a report on how each company will (1) ensure competitive positioning based on emerging near and long-term GHG regulatory scenarios, (2) comply with California's GHG standards, and (3) reduce GHG emissions from each of their national fleet of vehicle products by 2014 and 2024.

Consistent with CalPERS' routine support for proposals requesting information that poses no long-term harm, staff intends to vote "For" both 2005 shareholder proposals as each proposal facilitates the improvement of data transparency and timely disclosure without posing long-term harm to either company.

Staff has worked closely with the State Controller's Office on the issue of auto emissions and recommends taking the following additional steps consistent with Controller Westly's prior correspondence to the CalPERS Board:

- a) Submit letters to both Ford and General Motors communicating CalPERS' vote intentions on the shareholder proposals that have been filed in 2005 and encourage the boards at both companies to comply with the specific requests.
- b) Hire a proxy solicitor to support both proposals.
- c) Identify opportunities to submit and solicit support of shareholder proposals at the other seven auto alliance members should filing dates permit.
- d) Identify two or three of the nine auto companies that could be engaged by CalPERS staff as part of the preliminary Focus List process.

<u>Initiative 3: Improve Data Transparency – Electric Power/Utilities Industry</u>

The effects of green house gas emissions on climate change from the electric/utilities industry ("Utilities") are quickly becoming an area potentially in need of greater data transparency and disclosure. A number of industries have been identified as GHG emitters; however, research indicates that the Utilities industry contributes to one-third¹ of the total global GHG emission. One strategy to address this industry would be to collaborate with like-minded investors and other interested parties to support and encourage disclosure of environmental liabilities and data by companies and regulators within the Utilities industry.

Staff recommends working with CalSTRS staff to explore the viability and development of a GHG reporting project that focuses on improving adequate, accurate and timely data transparency within the Utilities industry. The objective would be to identify improved reporting opportunities, effective means of transitioning such a project to an external entity such as the California Climate Action Registry² for implementation, and encouraging support at combined CalPERS and CalSTRS Utilities portfolio holdings.

¹ Environmental analysts indicate that total global GHG emission contributions are broken down as follows: 1/3 Transportation Industry; 1/3 Electric Power/Utilities Industry; 1/3 all Other industries.

² The California Climate Action Registry was established by California statue in 2001 as a non-profit voluntary registry to assist companies and organizations with operations within the state of California to establish GHG emissions baselines against which any future emission reduction requirements may be applied.

Initiative 4: Recognize – Corporate Disclosure Best Practices

Over the last twelve months, the Committee has referenced a desire to recognize corporate governance "Best Practices" at portfolio companies. For example, the Committee approved CalPERS' executive compensation strategic plan last November consisting of a micro-economic strategy to recognize pay for performance leaders.

Recognizing individual corporate leaders in transparency and disclosure practices will support acceptance in the marketplace. Therefore, staff recommends compiling examples of environmental transparency and disclosure "Best Practices" and report back at the June 2005 Investment Committee meeting with a plan for recognizing two environmental data disclosure corporate leaders at a CalPERS event toward the end of 2005.

Implementation: Corporate Governance Environmental Strategy

Actions taken by CalPERS as a shareowner can be instrumental in encouraging responsible corporate citizenship by the companies in which the Fund invests. Staff believes that these four initiatives to improve environmental data transparency and timely disclosure are best implemented in a measured and targeted approach. While the Strategy will require significant resources, staff believes existing corporate governance resources can effectively facilitate these four initiatives.

Therefore, in an effort to carry out a responsible and effective corporate governance environmental strategy, staff recommends CalPERS:

Adopt the four initiatives to facilitate improved disclosure and timely reporting of environmental data and update the Investment Committee on the progress of the corporate governance environmental strategy at the June 2005 Committee meeting.

V. STRATEGIC PLAN:

This item is not a product of either the 2004-2005 Strategic or Annual Plan.

VI. RESULTS/COSTS:

As one of the largest owners of domestic and international equities, CalPERS should benefit from improved environmental data transparency and timely disclosure.

Members of the Investment Committee February 14, 2005 Page 6

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NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

FOR IMMEDIATE RELEASE February 3, 2004

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STATE TREASURER PHIL ANGELIDES LAUNCHES 'GREEN WAVE' ENVIRONMENTAL INVESTMENT INITIATIVE TO BOLSTER FINANCIAL RETURNS, CREATE JOBS AND CLEAN UP THE ENVIRONMENT

Landmark Environmental Initiative Will Boost Growing Economic Sector and Reduce Risks to Pensioners and Taxpayers

PALO ALTO, CA – State Treasurer Phil Angelides, joined today by environmental, labor and business leaders, launched a landmark environmental *Green Wave* initiative to bolster financial returns, create jobs and clean up the environment.

The four-pronged initiative calls on the State's two large public pension funds – the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) – to marry the jet stream of finance and capital markets with public purpose by committing \$1.5 billion to investments in cutting-edge technologies and environmentally responsible companies. The goal of the initiative is to improve long-term financial returns for pensioners and taxpayers through investments in the burgeoning environmental technology sector, while also reducing the risks to the pension funds posed by corporate environmental liabilities.

"Now is the time for California to catch the 'Green Wave' of smart, environmental investments and responsible corporate environmental leadership," Angelides – who sits on the boards of both CalPERS and CalSTRS – said at a news conference here at Nanosolar Inc., a maker of cutting-edge, lightweight plastic solar cells. "The environmental technology sector is expanding rapidly in response to the growing worldwide need for clean water, efficient energy sources, and other sustainable environmental solutions.

"We need to move forward now," the Treasurer added, "so California and our pension funds can capture this economic growth and create jobs, while at the same time clearing the air, land and water of pollutants through advanced solutions to our environmental challenges."

The Treasurer's *Green Wave* initiative calls on CalPERS and CalSTRS – the nation's largest and third largest public pension funds, with combined assets of \$250 billion – to implement the following four-pronged plan:

Demand Environmental Accountability and Disclosure. Using their financial clout in the marketplace, and building on their track record of corporate governance leadership, CalPERS and CalSTRS would prod corporations to

provide meaningful, consistent and robust reporting of their environmental practices, risks and potential liabilities. Through a new environmental governance program, CalPERS and CalSTRS would encourage companies – through dialogue, shareholder resolutions and other actions – to improve their environmental operations and reduce their environmental risks and liabilities. As part of this effort, California's pension funds would also join with other major U.S. investors to urge more comprehensive corporate reporting of environmental practices and liabilities. The coalition's effort would include such actions as urging the Securities and Exchange Commission to strengthen environmental disclosure rules, and seeking corporate reporting on such critical financial factors as climate risk assessment and global warming.

"Shareholders need to know if the companies they own are going down the prudent path, by adopting environmental practices that will enable them to survive and thrive in a world of increasing environmental concern and regulation," Angelides said. "Or, whether those companies are taking the path of denial, risk, liability and cost."

Target Private Investment in Environmental Technologies. Urge CalPERS and CalSTRS to invest a combined \$500 million in private equity investments, venture capital, and project financing to develop "clean" technologies that can provide the pension funds with positive, long-term returns, and that can create jobs and economic growth in California in the years ahead. Across the globe, demographic trends, public awareness, environmental crises and increased regulation and public policy attention are driving growth in the clean technology industry. Riding this "Green Wave" of technological innovation will allow CalPERS and CalSTRS to help build an industry critical to the State and nation, while earning those positive returns for pensioners and taxpayers and addressing environmental problems.

Invest in Stocks of Environmentally Responsible Companies. Urge CalPERS and CalSTRS to invest a combined \$1 billion of their stock portfolios into environmentally screened funds through leading active public equity investment managers with proven track records. An increasing number of recent investment research studies have shown that environmentally screened funds are outperforming their non-screened counterparts. Investing in such funds will not only provide CalPERS and CalSTRS with the opportunity for enhanced financial returns, but will also send a strong signal to corporations about the added value of responsible, forward-looking environmental practices. Under this proposal, the performance of any manager selected must equal or exceed that of the funds' existing, active managers.

Audit real estate portfolios to boost long-term value. Call on CalPERS and CalSTRS to undertake a comprehensive audit of their respective real estate investments to determine whether the investments are maximizing their opportunities to use clean energy, energy efficiency and green building standards and practices that reduce long-term costs and boost long-term value. CalPERS

and CalSTRS have nearly \$16 billion invested in real estate and property in California, the nation and 22 countries throughout the world. CalPERS and CalSTRS own nearly 160 million square feet of office and industrial space alone.

Dr. Bob Epstein, co-founder of Environmental Entrepreneurs (E2), praised the Treasurer's initiative. "We believe the efforts announced today will provide superior financial returns for CalPERS and CalSTRS," said Epstein, whose organization is a national nonpartisan coalition of business leaders who support good environmental policy based on its economic merits. E2's environmental partner is the Natural Resources Defense Council. "From renewable energy to new types of materials," Epstein added, "the growing 'clean technology' markets can provide California economic growth, new jobs and more efficient businesses while also helping to make a cleaner, healthier environment."

Angelides said the *Green Wave* initiative is an outgrowth of a yearlong series of roundtable discussions with environmental technology and financial leaders across the nation, and the Institutional Investor Summit on Climate Risk held last November at the United Nations in New York, presented by CERES, a national coalition of investment funds, environmental organizations and public interest groups. The Treasurer was a speaker at the meeting.

Mindy Lubber, executive director of CERES, said today of Angelides' initiative, "This is a visionary plan of concrete actions investors can take to mitigate off-balance sheet risks posed by environmental threats like climate change, and to encourage investment in new opportunities. Treasurer Angelides' leadership should inspire other major investors to act to assure a safer, sounder, and more profitable future."

Also lending his support today to the *Green Wave* initiative was Art Pulaski, Executive Secretary Treasurer of the California Labor Federation. Pulaski pointed out that the Treasurer's proposal complements the California Apollo Project, an environmental program announced today in Los Angeles by Pulaski and a coalition of other labor, environmental and community group leaders. "The California Apollo Project is about changing our future," Pulaski said, "We need to see strong public investment in real job creation – not careless governmental spending or corporate tax breaks that create long term deficits. CalPERS and CalSTRS can see great investment returns, benefiting our public employees, and at the same time building the right state economy."

In crafting the new initiative, Angelides said he was also building on the lessons learned from the recent wave of corporate scandals. "There is a parallel between the corporate CEO who cooks the books to pump up the value of his company's stock while he is simultaneously looting the firm for his own gain," the Treasurer said, "and a corporation that increases its returns for a few quarters by exploiting the environment. The corporation that exploits the environment leaves behind *both* a damaged environment and, ultimately, a degraded company."

At the Treasurer's request, CalPERS has already begun studying a clean technology private equity program, with a goal of fashioning a broad, flexible and diversified portfolio of investments that can achieve positive returns in the emerging clean technology investment arena. The CalPERS staff on March 15 is expected to report on its research to the board.

In addition, the Treasurer has asked both CalPERS and CalSTRS to put the proposed initiative on their respective agendas for later this spring and summer. And on Wednesday, CalSTRS is expected to formally schedule those spring and summer dates for Investment Committee discussion and possible action.

The Treasurer's latest initiative follows upon his previous efforts that seek to achieve positive financial returns while serving a beneficial public purpose.

In 2000, for example, Angelides launched the *Double Bottom Line* initiative that has targeted California's state and pension investments in urban neighborhoods, yielding positive returns while spurring economic development in California communities. Since then, California has directed more than \$9 billion in capital into these communities, from equity investments in urban businesses to mortgages for working Californians in urban and rural neighborhoods, with initial returns showing positive gains on those investments, particularly during a time when the stock market tumbled.

Then in 2002, the Treasurer unveiled the *Power of the Purse* initiative, to focus the shareholder power of California's pension and investment funds in bringing about meaningful corporate governance reform and improved investment returns. This initiative recognizes that California's taxpayers and pensioners benefit when corporate standards are high and corporate operations are transparent for all to see.

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NOTE: Please visit the Treasurer's website, <u>www.treasurer.ca.gov</u>, for additional information on today's announcement, including: fact sheets on each of the four facets of the Treasurer's *Green Wave* initiative; a copy of the Treasurer's Nov. 21, 2003 United Nations' speech at CERES' Institutional Investor Summit on Climate Risk; and bios of the speakers who attended today's news conference.



STEVE WESTLY California State Controller

November 17, 2004

Sean Harrigan, Board President and Members, CalPERS Board of Administration 400 P Street Sacramento, California 95814

Dear President Harrigan and Members:

With the Kyoto Protocol poised to become effective in early 2005, the CalPERS Board must proactively position itself in this new regulatory environment. Today's workshop offers an excellent opportunity for the Board to develop an effective path forward on this important issue.

First, CalPERS should immediately leverage its efforts by signing onto the Carbon Disclosure Project (CDP), an international initiative to improve the transparency of business risk associated with climate change. The CDP, based in the European Union, sends an annual questionnaire to the world's 500 largest corporations regarding their views on the potential risk of climate change, and their ability to measure and reduce carbon emissions. Ninety-five public and private fund managers, with a total \$10 trillion in assets, have already signed on to the initiative, which would provide CalPERS with a reliable source for information about environmental risks.

I also recommend the following two additional steps:

- Host a Round Table with other Financial Industry Investment Partners: Join with other institutional
 investors to host a round table meeting with representatives from banks and insurance companies on
 the impact of carbon emission regulations on public equity markets. Financial and insurance
 institutions have assets of over \$35 trillion and face similar challenges to institutional investors when
 deciding where to invest these assets.
- Advocate for West Coast Fiduciary Conference on Climate Risk: Support a California-based pension fund conference on the fiduciary's role in evaluating the risks and opportunities associated with climate change. Last September, The Investors Network on Climate Risk partnered with the Kennedy School of Government at Harvard University to host, "Sustainability and Risk: Climate Change and Fiduciary Duty for the Twenty-First Century Trustee." The conference addressed key fiduciary issues including legal responsibilities, material environmental risk, and potential pension fund actions. California pension fund trustees also need an opportunity to learn more about these issues.

In closing, I commend Winston Hickox for preparing such a comprehensive environmental workshop for the Board. Working together, the Board can ensure that our members' assets are well positioned to provide maximum return and benefit.

Sincerely,

STEVE WESTLY

California State Controller

SW: jh/js

cc: Fred Buenrostro, Chief Executive Officer

Mark Anson, Chief Investment Officer Winston Hickox, Investment Manager

CARBON DISCLOSURE PROJECT

57A Farringdon Road London, EC1M 3JB United Kingdom Email: info@cdproject.net www.cdproject.net

«Contact_Name1»

«Title1»

«Company_name»

«Address1»

«Address2»

«Postcode»

«Country»

Greenhouse Gas (GHG) Emissions

Dear «Salutation»

As institutional investors representing \$9 trillion funds under management, we are continually examining our portfolios in order to assess the potential risks and opportunities stemming from climate change. We want to improve our understanding of possible material impacts on investment value driven by climate change related to:

Taxation and regulation
Technological innovations
Shifts in consumer attitude and demand
Changes in weather patterns

As current and prospective investors in «Company_name», we would be grateful if you could complete the attached questionnaire, which has been sent to the world's 500 largest quoted companies by market capitalisation. This is the second iteration of this request (71% response rate in 2002). Further information is attached.

NOTE: 'A' OR 'B' BELOW WAS USED DEPENDING ON CIRCUMSTANCE:

- A: We would like to take this opportunity to thank you for your response last year and look forward to receiving updated information this year.
- B: Your company did not answer our questionnaire last year. We hope you will be able to do so on this occasion and look forward to receiving your response.

We recognise it can be time-consuming to answer a questionnaire in addition to your current environmental reporting. However, these questions are focused on climate change, updated from last year to reflect recent developments, and the answers will provide valuable investment-relevant information that is currently difficult to obtain. Your cooperation will be greatly appreciated.

Yours sincerely

Paul Dickinson

Coordinator writing on behalf of the institutional shareholders listed overleaf.

Institution

Abbey National plc Aberdeen Asset Managers ABP Acuity Investments AMP Henderson Global Investors Asahi Life Asset Management Co., Ltd ASN Bank AXA Bank Sarasin & Cie AG BNP Paribas Asset Management Catholic Superannuation Fund (CSF) Central Finance Board of the Methodist Church **CERES** Commerzbank Conneticut Retirement Plans and Trust Fund Co-operative Bank Cooperative Insurance Society Credit Agricole Asset Management Credit Suisse Group Deutsche Asset Management, UK Development Bank of Japan Dexia Asset Management Domini Social Investments Dresdner RCM Global Investors Environment Agency Pension Fund, UK Ethical Funds First Swedish National Pension Fund, AP1 Fleet Fortis Investments Gartmore Investment Management plc Henderson Global Investors Hermes Investment Management HSBC Holdings HVB Group ING Investment Management Europe Insight Investment Interfaith Centre on Corporate Responsibility ISIS Asset Management plc Jupiter Asset Management KBC Asset Management Local Authority Pension Fund Forum London Pension Fund Authority Meritas Financial Inc Merrill Lynch Investment Managers Mitsubishi Securities Morley Fund Management Munich Re Neuberger Berman Newton Investment Management Limited Ontario Teachers Pension Plan Pax World Funds **PGGM** Public Sector Superannuation Scheme / Commonwealth Superannuation Scheme (PSS/CSS) Rabobank Group Railpen Investments Real Assets Investment Management Inc Rockefeller & Co Socially Responsive Group SAM Sustainable Asset Management Sanlam Investment Management Sanpaulo Wealth Management Societe Generale Asset Management UK Ltd Sogeposte

November 2003
State Street Global Advisors Limited
State Treasurer of Vermont
Storebrand Investments
Swiss Re
Treasurer of the State of Maine
Trillium Asset Management
Triodos Bank
Tri-State Coalition for Responsible Investment
UBS Global Asset Management (UK)
Union Investment
Universities Superannuation Scheme
VicSuper Proprietary Limited
Walden Asset Management
Wells Fargo & Co.
West AM

Carbon Disclosure Project (CDP) Greenhouse Gas Emissions Questionnaire

We request as full a reply as possible to the following questions by no later than 29 February 2004. Please send responses electronically in English to the Project Coordinator at info@cdproject.net. If you already publish the relevant information, please indicate for each question how to access this. If at this stage you can only provide indicative information we would still welcome this; "a best guess" is more valuable to us than no response. If you are unable to answer any of these questions please state the reasons why.

Governance and Strategy:

- 1. Do you believe climate change, the policy responses to climate change and/or adaptation to climate change represent commercial risks and/or opportunities for your company?
 - If yes, specify the implications, detail the strategies adopted and actions taken to date.
 - If no, please indicate why.

Do you have a strategy regarding preparation for emerging greenhouse gas emissions regulation and trading regimes, in particular the European Union Emissions Trading Scheme?

- If yes, specify the implications, detail the strategies adopted and actions taken to date.
- If no, are you planning on doing so, and if so when?
- 3. Do you allocate responsibility for managing climate change related issues?
 - If yes, what is the title of the person with this responsibility?
 - If no, are you planning on doing so, and if so when?

Measurement:

Please specify the methodology you employ for measuring emissions, and explain if these data are audited and/or externally verified.

- 4. What is the quantity of annual emissions of the six main GHGs (CO2, CH4, N2O, HFCs, PFCs and SF6) produced by your operations in the following areas (Note 1)?
 - Globally.
 - Annex B of the Kyoto Protocol.
 - EU Emissions Trading Directive.
- 5. Products and services: Do you measure the emissions associated with both the use and disposal of your products and services (Note 2)?
 - If yes, please provide further information.
 - If no, are you planning on doing so, and if so when?
- 6. Supply chain: Do you measure the emissions generated by your supply chain?
 - If yes, please provide further information including details of the boundaries you apply.
 - If no, are you planning on doing so, and if so when?

Management:

- 7. Do you have emission reduction programmes in place?
 - If yes, please detail explicit targets relating to Os.4/5/6 and progress made to date.
 - If no, are you planning on doing so, and if so when?
- 8. Please explain how you could reduce your GHG emissions to meet national, regional and international targets for reductions. What are your estimated costs or savings associated with achieving these targets?
- 9. Have you considered scenarios involving reductions in GHG emissions beyond existing national, regional and international targets? If yes please detail these scenarios, and your estimated costs or savings associated with each one. If no, are you planning on doing so, and if so when?

Note 1: If you do not use a methodology for measuring emissions we suggest you follow guidelines such as those produced by the World Business Council for Sustainable Development (www.ghgprotocol.org) as a basis for preparing your response.

Note 2: For example, if you are a financial services company, do you take into account the emissions related risks and/or opportunities of the companies you invest in, lend to, or insure.

Report on Emissions Reduction and Competitive Positioning Strategy 2005 – Ford Motor Company

Whereas:

In the U.S., passenger cars and light trucks account for one-fifth of all annual U.S. carbon dioxide emissions linked to climate change.

Ford Motor Company bears the auto industry's second-highest "carbon burden" – or total carbon dioxide emissions associated with its fleet, due in part to the poor fuel efficiency of its products, not the size of its fleet.

Worldwide consensus that greenhouse gas (GHG) emissions need to be reduced continues to grow, with ratification of the Kyoto Protocol causing many countries to enact limits on these emissions. Already, the European Union and some U.S. states have enacted similar limits, and Canada's reduction target of 25% is due by the end of the decade.

In September 2004, the California Air Resources Board adopted regulations requiring vehicle emissions reduction in California; other states will follow. Roughly one-quarter of the US vehicle market is currently required to meet California's standards, to which the greenhouse gas regulations will eventually be added.

Fuel-efficiency standards more stringent than U.S. standards have recently been approved in China, the fastest-growing passenger car market in the world. Most of Ford's SUVs sold today in the U.S. would be illegal for sale in China by 2008.

These standards are creating markets favorable to automakers with lower carbon burdens and agility in introducing clean technology vehicles.

Competitors Honda and Toyota, already offering vehicles with better than average fuel economy, have been moving quickly to introduce lower-emission advanced technology vehicles to consumers. Toyota successfully introduced hybrid vehicles to the U.S. market three model years ago, and has already moved to the second generation of hybrid technology. Toyota has outsold Ford worldwide for the first time in history (USA Today 11/11/03).

In January, 2004, Ford announced that it would be forced to purchase patent rights from Toyota in order to launch its first hybrid-technology vehicle, a hybrid version of the Escape SUV.

While Ford is investing in advanced technologies such as hybrids and hydrogen fuel cells and plans to bring some advanced technologies and some improved conventional technologies to market in select products, our Company has not reported to investors its expectations for reductions in Ford's overall carbon burden or its ability to meet near-and long-term emerging global competitive and regulatory scenarios.

Resolved: The shareholders request that a committee of independent directors of the Board assess (a) how the Company will ensure competitive positioning based on emerging near and long-term GHG regulatory scenarios at the state, regional, national and international levels, (b) how the Company plans to comply with California's greenhouse gas standards, and (c) how the Company can significantly reduce greenhouse gas emissions from its national fleet of vehicle product (using a 2004 baseline) by 2014 and 2024, and report to shareholders (at reasonable cost and omitting proprietary information) by September 1, 2005.

SUPPORTING STATEMENT

We believe management has a fiduciary duty to carefully assess and disclose to shareholders all pertinent information on its response associated with climate change, particularly as it relates to an emerging business reality.

Report on Emissions Reduction and Competitive Positioning Strategy 2005 – General Motors

Whereas:

In the U.S., passenger cars and light trucks account for one-fifth of all annual U.S. carbon dioxide emissions linked to climate change.

General Motors bears the auto industry's highest "carbon burden" – or total carbon dioxide emissions associated with its fleet, due in part to the poor fuel efficiency of its products, not the size of its fleet.

Worldwide consensus that greenhouse gas (GHG) emissions need to be reduced continues to grow, with ratification of the Kyoto Protocol causing many countries to enact limits on these emissions. Already, the European Union and some U.S. states have enacted similar limits, and Canada's reduction target of 25% is due by the end of the decade.

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These standards are creating markets favorable to automakers with lower carbon burdens and agility in introducing clean technology vehicles.

Competitors Honda and Toyota, already offering vehicles with better than average fuel economy, have been moving quickly to introduce lower-emission advanced technology vehicles to consumers. Toyota successfully introduced hybrid vehicles to the U.S. market three model years ago, and has already moved to the second generation of hybrid technology. Toyota is now poised to sell more cars in the U.S. than Chevrolet and Ford combined (Associated Press 9/5/03).

In January, 2004, General Motors delayed the production of its first full hybrid vehicle, the Saturn Vue SUV, in order to develop new technologies not already patented by Toyota.

While GM is investing in advanced technologies such as hybrids and hydrogen fuel cells and plans to bring some advanced technologies and some improved conventional technologies to market in select products, our Company has not reported to investors its expectations for reductions in GM's overall carbon burden or its ability to meet near-and long-term emerging global competitive and regulatory scenarios.

Resolved: The shareholders request that a committee of independent directors of the Board assess (a) how the Company will ensure competitive positioning based on emerging near and long-term GHG regulatory scenarios at the state, regional, national and international levels, (b) how the Company plans to comply with California's greenhouse gas standards, and (c) how the Company can significantly reduce greenhouse gas emissions from its national fleet of vehicle product (using a 2004 baseline) by 2014 and 2024, and report to shareholders (at reasonable cost and omitting proprietary information) by September 1, 2005.

SUPPORTING STATEMENT

We believe management has a fiduciary duty to carefully assess and disclose to shareholders all pertinent information on its response associated with climate change, particularly as it relates to an emerging business reality.





Investment Office

P.O. Box 2749
Sacramento, CA 95812-2749
Telecommunications Device for the Deaf - (916) 795-3240
(916) 795-3400

June 13, 2005

AGENDA ITEM: 7a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Environmental Strategic Plan Update

II. PROGRAM: Global Equity

III. INFORMATION: Update

IV. ANALYSIS:

Executive Summary

On February 14, 2005, the Investment Committee approved the Corporate Governance Environmental Strategy ("Strategy") consisting of four targeted initiatives (Attachment 1). The objective of the Strategy is to facilitate the improvement of disclosure on greenhouse gas ("GHG") emissions and timely reporting of environmental data at portfolio companies. The four targeted initiatives of the Strategy include:

- 1) Sign onto the Carbon Disclosure Project.
- 2) Support GHG data transparency within the auto industry, including support of shareowner proposals and potential Focus List candidates.
- 3) Explore opportunities to improve GHG data transparency within the electric power/utilities industry.
- 4) Recognize corporate disclosure "Best Practices."

In this agenda item, staff provides an update on the early progress of each initiative.

Background

In 2004, CalPERS was asked by California State Treasurer Phil Angelides and California State Controller Steve Westly to consider environmental issues with

respect to the potential impact on the Fund. Further, CalPERS was asked to take an active role in encouraging companies to provide meaningful, consistent, and robust reporting of their environmental practices, risks, and potential liabilities. After exploring the issue, staff believed that improved data transparency could help long-term risk assessment at the companies in which CalPERS invests. Therefore, four targeted initiatives were identified to facilitate improving environmental data transparency. On February 14, 2005, the Investment Committee approved the Corporate Governance Environmental Strategy and directed staff to proceed with the four initiatives outlined therein.

Staff has continued to build its expertise regarding the issue of environmental data disclosure and climate change. Global, national, and state regulatory risks to publicly traded companies continue to gain momentum with the most noticeable emphasis being placed on climate change.

Recent Supporting Events

At the World Economic Forum in January 2005, climate change was one of two major issues highlighted with participants urging the adoption of technology to reduce GHG emissions.

On March 30, 2005, 10 mayors formed the U.S. Mayors Climate Protection Agreement and invited 400 other mayors to join. To date, 132 mayors from 35 states have joined the bipartisan coalition's fight against global warming at the local level and are striving to meet the terms of the Kyoto Protocol in their respective cities. In addition, the Environmental Protection Agency's Clean Air Interstate Rule ("CAIR") took effect on May 12, 2005. CAIR requires 28 eastern states and the District of Columbia to reduce harmful emissions from coalburning power plants by 2015 to assist states downwind of the pollutants in meeting their air quality standards and to protect public health.

Also in March, CalPERS' and CalSTRS' co-sponsored their first ever joint conference, "Institutional Investors' Cleantech Conference." The following day, CERES sponsored its first West Coast conference, "Climate Risk: What Investors Need to Know."

On May 10, 2005, the Institutional Investor Summit on Climate Risk took place at the United Nations Building in New York City. Attendance at this second annual event increased approximately 33% to 375 participants representing institutional investors, global financial firms, foundations, elected officials, and business leaders. The participants gathered to discuss the challenges and opportunities set forth by climate change.

Furthermore, during the Summit, the Investor Network on Climate Risk ("INCR") announced its "Managing Climate Risk and Capturing the Opportunities - A Renewed Call for Action" calling upon institutional investors, fund managers, financial advisors, companies and government to address the financial risks and investment opportunities posed by climate change. The number of signatories on the "Renewed Call for Action" more than doubled to 26. On May 16, 2005, CalPERS became a signatory on the 2005 "Renewed Call for Action."

Corporate Governance Environmental Initiative Update

Initiative 1: Support – Carbon Disclosure Project

The objective of Initiative 1 is to support the Carbon Disclosure Project ("CDP") by becoming a signatory on CDP's 2005 information request. The CDP sends its information request to the Financial Times 500 ("FT500") companies asking for investment-relevant data concerning carbon emissions. CalPERS became a signatory with 152 other investors on the reminder letter that was submitted on April 1, 2005 (Attachment 2). The 153 signatories of this year's project represent a 38% increase over last year.

The response deadline for the 2005 information request was May 31, 2005. A report summarizing this year's responses is expected to be released by October and subsequently forwarded to the Investment Committee.

Initiative 2: Improve Data Transparency – Auto Industry

The objective of Initiative 2 is to improve environmental data transparency and timely disclosure in the auto industry. This objective included supporting shareowner proposals that had been filed at Ford and General Motors. Staff determined that each proposal would facilitate the improvement of data transparency and timely disclosure without posing long-term harm to either company. In addition to voting "For" both 2005 shareowner proposals, staff submitted letters to the companies communicating CalPERS' vote intention and encouraging both boards to comply with the specific proposal request. Lastly, CalPERS hired a proxy solicitor to support both proposals.

Directly following the February Investment Committee meeting, staff contacted Ford and General Motors to initiate a dialogue regarding the proposals and CalPERS' position. On March 31, 2005, Ford announced its plans to issue a report on Climate Change by the end of 2005 and as a result the co-filers withdrew their proposal.

General Motors was unable to come to a resolution with the co-filers of its shareowner proposal. Therefore, consistent with the Investment Committee's

direction, CalPERS in a joint effort with CalSTRS, submitted a letter to the company Board of Directors communicating our support of the proposal and requesting compliance with the specific proposal requests (Attachment 3).

CalPERS and CalSTRS moved forward with hiring a proxy solicitor to garner additional institutional investor support for the proposal. General Motor's Annual General Meeting was held on June 7, 2005 and CalPERS voted "For" the "Report on Emissions Reduction and Competitive Positioning Strategy" shareowner proposal (Attachment 4). Staff will provide an oral update at the June Investment Committee meeting.

Along with supporting the shareowner proposals at Ford and General Motors, staff was directed to identify two or three of the nine auto alliance companies that could be engaged by CalPERS staff as part of the preliminary Focus List process. Staff recently completed the 2005 Focus List process and presented the 2005 Focus List to the Investment Committee on April 18, 2005. Currently, staff is beginning the 2006 preliminary Focus List process and each of the nine auto alliance companies will be screened for possible engagement.

<u>Initiative 3: Improve Data Transparency – Electric Power/Utilities Industry</u>

The objective of Initiative 3 is to work together with CalSTRS to explore the viability and development of a GHG reporting project that focuses on improving adequate, accurate and timely data transparency within the Electric Power/Utilities ("Utilities") industry. Staff has met with CalSTRS staff on multiple occasions and developed an engagement strategy with respect to GHG reporting.

The focus of these discussions has now moved on to the development phase of the GHG reporting project. This phase includes identifying what environmental information public utility companies should disclose to improve transparency as well as identifying which medium a company could use to disclose such information. Additionally, staff is working to identify possible third party entities that could carry out implementation of the GHG reporting project after development.

Initiative 4: Recognize – Corporate Disclosure Best Practices

The objective of Initiative 4 is to recognize individual corporate leaders in environmental transparency and disclosure "Best Practices." Recognizing individual corporate leaders will support the acceptance of "Best Practices" in the marketplace. Staff is in the process of identifying examples of corporate disclosure best practices and will be bringing a public agenda item to the

Members of the Investment Committee June 13, 2005 Page 5

Investment Committee in November of this year that entails the recognition of no more than two companies.

Future Plans

The four targeted initiatives will continue as planned into the 2005-2006 fiscal year. Staff plans to update the Investment Committee again in the summer of 2006.

V. STRATEGIC PLAN:

This item is not a product of either the 2004-2005 Strategic or Annual Plan.

VI. RESULTS/COSTS:

Costs associated with the Corporate Governance Environmental Strategy are absorbed by the current Investment Office budget.

	Kelly Forrest Investment Officer, Corporate Governance
	Winston Hickox Portfolio Manager
	William Sherwood-McGrew Portfolio Manager, Corporate Governance
	Christianna Wood Senior Investment Officer
Mark Anson Chief Investment Officer	

1st April 2005

CARBON DISCLOSURE PROJECT

57A Farringdon Road London, EC1M 3JB United Kingdom Email: info@cdproject.net www.cdproject.net

Name Title

Company

Address1

Address2

Address3

Address4

Addresss5

Shareholder Request for data on your Companies Greenhouse Gas Emissions

Dear X,

On 1 February 2005 the Carbon Disclosure Project (CDP) sent you a formal request for disclosure of information from 143 shareholders with more than \$20 trillion assets under management, see attached documentation. Since then, 9 more investors including CalPERS, Sumitomo Mitsui Financial Group and the Bank of Brazil have joined this request. These shareholders own a significant proportion of your company and requested this information because they require it. It is our responsibility to obtain this information for them and we would appreciate your assistance in complying with their instructions. The combined request is designed to reduce the effort required by your company.

The disclosure request consists of only nine questions. We very much hope your company will be able to deliver this information to your investors. The closing date for completed responses is 31st May 2005. If you are unable to answer all of the questions, the investors are still interested to hear what you have to say: Alex Popplewell, at Merrill Lynch Investment Managers was recently quoted in the press commenting on CDP: "There's no excuse for failing to participate in the project. If you're a company that emits very little, just say that."

60% of the FT500 corporations answered the questions in 2004 and this figure is set to rise considerably this year, so any companies not responding to this third iteration of CDP may be perceived as poorly managed.

I have attached some recent press coverage to show the high profile of this request. We hope and believe your company has the capability to respond to these nine questions. Please confirm that you have received this communication and that you will be responding by sending an email to info@cdproject.net

Yours sincerely

Paul Dickinson Project Coordinator



P.O. Box 2749
Sacramento, CA 95812-2749
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(916) 795-3400 FAX (916) 795-2842



California State Teachers' Retirement System 7667 Folsom Blvd, MS-4 Sacramento, CA 95826

April 29, 2005

Via Overnight Courier

Richard Wagoner, Jr.
Chairman and Chief Executive Officer
General Motors Corporation
300 Renaissance Center
Detroit, MI 48265

Dear Mr. Wagoner:

We are writing to you on behalf of the California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS), owners of 1,837,871 (.33%) and 2,455,225 (.44%) shares of common stock respectively in General Motors Corporation as of April 8, 2005.

The purpose of this letter is to express our strong support for a 2005 shareowner proposal requesting that a committee of independent directors of the Board assess (a) how the Company will ensure competitive positioning based on emerging near and long-term GHG regulatory scenarios at the state, regional, national and international levels, (b) how the Company plans to comply with California's greenhouse gas standards, and (c) how the Company can significantly reduce greenhouse gas emissions from its national fleet of vehicle product (using a 2004 baseline) by 2014 and 2024, and report to shareowners (at reasonable cost and omitting proprietary information) by September 1, 2005.

With adequate, accurate and timely data disclosure, shareowners are able to more effectively make investment decisions by taking into account the business practices (including environmental practices) of the companies in which we invest. We strongly encourage the General Motors Board of Directors to comply with the shareowner proposal request. Specifically, we ask that the Board take the appropriate action on disclosing all pertinent information associated with climate change, as it relates to the 2005 shareowner proposal.

We believe the proposal facilitates improved data transparency and timely disclosure without posing any long-term harm to the company. Therefore, both CalPERS and CalSTRS will be supporting the 2005 proposal should it come to a vote at the company's upcoming annual meeting as well as hiring a proxy solicitor to encourage other shareowner support.

We would be available to discuss any pending Board action General Motors is taking to address the merits of the 2005 shareowner proposal and ask that you contact Bill McGrew, Portfolio Manager - CalPERS, at (916) 795-2431 to arrange such a meeting in person or via teleconference.

Sincerely,

Mark Anson

Chief Investment Officer, CalPERS

Christopher J. Ailman,

Chief Investment Officer, CalSTRS

CC: CalPERS Board of Administration

CalSTRS Board Members

Fred Buenrostro, Chief Executive Officer – CalPERS Jack Ehnes, Chief Executive Officer – CalSTRS

CC: General Motors Corporation Board of Directors

Report on Emissions Reduction and Competitive Positioning Strategy 2005 – General Motors

Whereas:

In the U.S., passenger cars and light trucks account for one-fifth of all annual U.S. carbon dioxide emissions linked to climate change.

General Motors bears the auto industry's highest "carbon burden" – or total carbon dioxide emissions associated with its fleet, due in part to the poor fuel efficiency of its products, not the size of its fleet.

Worldwide consensus that greenhouse gas (GHG) emissions need to be reduced continues to grow, with ratification of the Kyoto Protocol causing many countries to enact limits on these emissions. Already, the European Union and some U.S. states have enacted similar limits, and Canada's reduction target of 25% is due by the end of the decade.

In September 2004, the California Air Resources Board adopted regulations requiring vehicle emissions reduction in California; other states will follow. Roughly one-quarter of the US vehicle market is currently required to meet California's standards, to which the greenhouse gas regulations will eventually be added.

Fuel-efficiency standards more stringent than U.S. standards have recently been approved in China, the fastest-growing passenger car market in the world. Most of GM's SUVs sold today in the U.S. would be illegal for sale in China by 2008.

These standards are creating markets favorable to automakers with lower carbon burdens and agility in introducing clean technology vehicles.

Competitors Honda and Toyota, already offering vehicles with better than average fuel economy, have been moving quickly to introduce lower-emission advanced technology vehicles to consumers. Toyota successfully introduced hybrid vehicles to the U.S. market three model years ago, and has already moved to the second generation of hybrid technology. Toyota is now poised to sell more cars in the U.S. than Chevrolet and Ford combined (Associated Press 9/5/03).

In January, 2004, General Motors delayed the production of its first full hybrid vehicle, the Saturn Vue SUV, in order to develop new technologies not already patented by Toyota.

While GM is investing in advanced technologies such as hybrids and hydrogen fuel cells and plans to bring some advanced technologies and some improved conventional technologies to market in select products, our Company has not reported to investors its expectations for reductions in GM's overall carbon burden or its ability to meet near-and long-term emerging global competitive and regulatory scenarios.

Resolved: The shareholders request that a committee of independent directors of the Board assess (a) how the Company will ensure competitive positioning based on emerging near and long-term GHG regulatory scenarios at the state, regional, national and international levels, (b) how the Company plans to comply with California's greenhouse gas standards, and (c) how the Company can significantly reduce greenhouse gas emissions from its national fleet of vehicle product (using a 2004 baseline) by 2014 and 2024, and report to shareholders (at reasonable cost and omitting proprietary information) by September 1, 2005.

SUPPORTING STATEMENT

We believe management has a fiduciary duty to carefully assess and disclose to shareholders all pertinent information on its response associated with climate change, particularly as it relates to an emerging business reality.



CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

September 19, 2005

The Investment Committee met on Monday, September 19, 2005 in the Lincoln Plaza North Building, 400 Q Street, Auditorium, Sacramento, California.

The meeting was called to order at approximately 9:05 a.m. and the following members were present:

Charles Valdes, Chair
George Diehr, Vice Chair
Ron Alvarado
Philip Angelides
Marjorie Berte
Robert F. Carlson
Rob Feckner
Priya Mathur
Michael Navarro
Tony Oliveira
Kurato Shimada
Steve Westly, represented by Joy Higa and Toni Symonds

John Hiber represented Philip Angelides

Investment Committee members excused: Mike Quevedo, Jr.

The Chair welcomed new Board member Tony Oliveira, local government representative replacing Willie Brown.

AGENDA ITEM 2 - APPROVAL OF AGENDA

Agenda Item 8a was taken up at a time certain of 11:30 a.m.

AGENDA ITEM 3 – APPROVAL OF THE AUGUST 2005 MEETING MINUTES

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** that the August 15, 2005 Open Session minutes be approved as presented.

AGENDA ITEM 4 - INVESTMENT OFFICE ANNUAL PLAN

Mark Anson, Chief Investment Officer, presented the Annual Plan including asset class performance, key accomplishments, enterprise and strategic goals, long-term investment outlook, key objectives for 2005-2006, and next steps.

The Annual Plan was presented for the Investment Committee's information. Specific action items that require Investment Committee approval will be presented to the Board at a future date with specific costs identified. Each unit within the Investment Office will present a more detailed individual annual plan at upcoming meetings.

The Committee accepted the informational report.

AGENDA ITEM 5 – Calpers Total Fund Quarterly Report

Roz Hewsenian and Michael Schlachter, Wilshire Associates, presented the Executive Summary of the Investment Performance quarterly report for the period ended June 30, 2005. The performance of each asset class was reviewed and it was noted that overall performance for the one year period was very good – up 12.3%.

The Committee accepted the informational report.

AGENDA ITEM 6a - REAL ESTATE, Spring-Fed Special Projects Consultant Pool

Al Fernandez, Senior Portfolio Manager, and Diloshini Seneviratne, Investment Officer, presented the item.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve that the following consultants be added to the existing Real Estate Spring-Fed Special Projects Pool:

- Conrad and Associates, L.L.P.
- Le Plastrier Development Consulting
- JRT Realty Group, Inc.
- KPM Associates
- Situs Realty Services

AGENDA ITEM 7a – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, AIM Spring-Fed Pool

Leon Shahinian, Senior Investment Officer, Sarah Corr, Portfolio Manager, presented the item.

In October 2005 Pension Consulting Alliance will present a Strategic Review of the AIM Program which will include an overview of the AIM Unit's use of consultants. Establishment of a new spring fed pool will reflect the Investment Committee's decisions regarding said review. Staff plans to begin a new RFP process in November 2005 and it is expected that a new pool of consultants will be selected and contracts will be in place by June 30, 2006.

The Committee accepted the informational report.

AGENDA ITEM 7b – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, Apollo Management Update

Leon Shahinian, Senior Investment Officer, presented the item.

Leon Black, Apollo Management, provided an overview of their program including their unique investment approach and portfolio management, historical overview, and fund summary.

The Committee accepted the informational report.

The meeting recessed from 10:35 a.m. to 10:55 a.m.

AGENDA ITEM 8b – GLOBAL EQUITY, Environmental Initiative on Utility Industry Transparency

Christy Wood, Senior Investment Officer, Bill McGrew, Portfolio Manager, Winston Hickox, Special Advisor-Environmental Initiatives, and Kelly Forrest, Investment Officer, presented the item.

Staff provided an update regarding Initiative 3 of the Corporate Governance Environmental Strategy, which is to identify improved reporting opportunities, develop a GHG reporting project, transition it to an external entity for implementation, and encourage support for it at our combined Utilities portfolio companies. Staff reported on the results of CalPERS and CalSTRS discussions to explore possible options.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to:

- Approve the Greenhouse Gas (GHG) Reporting Project in coordination with CalSTRS and the Carbon Disclosure Project (CDP) with the objective to improve transparency in the Electric Power/Utilities industry subject to successful negotiations of price and terms.
- 2. Approve writing letters to CalPERS' Utilities portfolio companies to encourage cooperation with the GHG Reporting Project and consider other forms of disclosure in regard to GHG reporting.
- 3. Approve public recognition of companies that cooperate with the GHG Reporting Project.

The Chair directed that at the conclusion of this process (June 2006) the staff report include information that reflects those companies that did not respond in a positive way.

AGENDA ITEM 8c – GLOBAL EQUITY, Domestic Equity Manager Annual Review

Christy Wood, Senior Investment Officer, and Mary Cottrill, Senior Portfolio Manager, presented the item. Roz Hewsenian, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to renew the contracts for the following CalPERS' managers for a period of one year:

Active Managers

- AllianceBernstein
- The Boston Company
- Franklin Advisors
- Geewax, Terker & Company
- J.P. Morgan Investment Management
- Pzena Investment Management

Enhanced Index Managers

- Atlantic Asset Management
- Franklin Portfolio Associates
- Goldman Sachs Asset Management
- Intech
- Quantitative Management Associates
- Smith Breeden
- Western Asset Management Co.

The meeting recessed from 11:25 a.m. to 11:35 a.m.

AGENDA ITEM 8a – GLOBAL EQUITY, Update on Investments in Companies Doing Business in Sudan

The Chair commented on the situation in the Sudan involving the loss of life, displaced persons, ethnic tension and ongoing genocide, and described the leadership role the CalPERS Board and staff have taken on this issue.

Mark Anson, Chief Investment Officer, provided an update regarding staff's broad efforts over the course of the last ten months to engage relevant parties with regard to any investments in companies operating in the Sudan. He outlined the next steps staff will be taking to ensure that companies in which CalPERS has ownership positions are not engaged in any business activities that support genocide and human suffering in the Sudan.

There was a lengthy discussion regarding the seriousness of this issue, CalPERS' responsibility, and possible actions to be taken.

Public comments were received from the following:

- Congresswoman Barbara Lee
- Nikki Serapio, Stanford University Student

Tom Lussier, CalPERS Federal Liaison, commented (via telephone) about frustration encountered on an ongoing basis with federal agencies that have an appropriate responsibility to assist us in this situation and the need to redouble our efforts at the federal level.

The Chair directed that:

- This issue is of great import to the CalPERS Investment Committee, and Staff should continue to diligently and proactively pursue the action plan outlined in the agenda item.
- CalPERS has taken a leadership role among public pension funds on this issue as demonstrated by all of the work done to date and detailed in this agenda item. In fact, CalPERS has applied more resources to pursue and elevate this issue than any other investor in the world.
- The Committee authorizes staff to expend the resources necessary to implement the plan outlined in the agenda item, including the possible use of a consultant to assist in refining the list of pertinent companies for engagement and to support in the engagement process.
- In addition, the Board is cognizant that Staff have been given additional key priorities this year (Green Initiative, Executive Compensation, and Diversity), and the Board is willing to rework these priorities for Staff to allow Staff to pursue this issue.
- Staff should continue to work with CalPERS' federal legislative representative to
 press the appropriate federal entities to identify companies with business or financial
 ties in the Sudan, such that we may fulfill our fiduciary duty
- Staff should report back on a regular basis to the Investment Committee on its progress.

The meeting recessed from 12:20 p.m. to 1:30 p.m.

AGENDA ITEM 8d – GLOBAL EQUITY, International Equity Manager Annual Review

Christy Wood, Senior Investment Officer, and Mary Cottrill, Senior Portfolio Manager, presented the item. Roz Hewsenian, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to renew the contracts for the following CalPERS' managers for a period of one year:

Passive Developed Markets Equity Index Fund Manager

State Street Global Advisors

Active All-World ex-U.S. Equity Managers

- Arrowstreet Capital
- Baillie Gifford
- Grantham, Mayo, Van Otterloo
- Robeco USA

Active European Equity Managers

AXA Rosenberg

Capital Guardian

Active Pacific Basin Manager

Nomura Asset Management

Active Emerging Markets Equity Managers

- AllianceBernstein Institutional
- Dimensional Fund Advisors
- **Genesis Asset Managers**

AGENDA ITEM 8e - GLOBAL EQUITY, Spring-Fed Pools for International Equity Management and U.S. Equity Enhanced Indexing Management

Christy Wood, Senior Investment Officer, and Mary Cottrill, Senior Portfolio Manager, presented the item. Roz Hewsenian, Wilshire Associates, was available to respond to guestions from the Committee.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to:

1. Approve the following spring-fed pool managers, subject to successful negotiation of fees and terms:

International Equity Enhanced Indexing • AQR Capital Management Services

- Quantitative Management Associates

Active International Equity Management • Acadian Asset Management Services

U.S. Equity Enhanced Indexing Services

T. Rowe Price Associates

2. Approve the use of annual review contracts for the managers to be included in the spring-fed pools.

AGENDA ITEM 8f – GLOBAL EQUITY, Corporate Governance Internal Staff Working Group, Council for Institutional Investors-September 2005 Meeting Update

Mark Anson, Chief Investment Officer, and Christy Wood, Senior Investment Officer, presented the item.

The meeting agenda and a written summary of expected speakers and topics were provided to the Committee.

AGENDA ITEM 9 – GLOBAL FIXED INCOME

There were no items to report.

AGENDA ITEM 10a – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Consolidated Investment Activity Report

Mark Anson, Chief Investment Officer, presented the item and noted that CalPERS had no direct exposure to Hurricane Katrina and the only anticipated effects on our portfolio will be at the macro-economic level.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of July 31, 2005, was approximately \$194.6 billion and the total book value was approximately \$149.1 billion.

AGENDA ITEM 11 – PROPOSED 2006 INVESTMENT COMMITTEE MEETING DATES

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the Proposed 2006 Investment Committee Meeting Dates.

AGENDA ITEM 12 - DRAFT OCTOBER 2005 AGENDA

The Committee accepted the proposed October 17, 2005 agenda.

AGENDA ITEM 13 – PUBLIC COMMENT

There were no additional comments from the public.

The meeting was adjourned at 1:50 p.m.

The next meeting of the Committee is scheduled for October 17, 2005 in San Diego, California.

FRED BUENROSTRO
Chief Executive Officer